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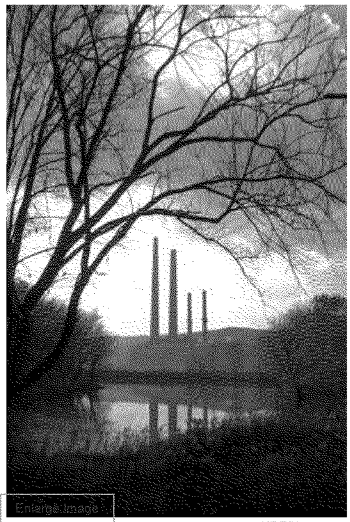
Coal-Fired Plants Mothballed by Gas Glut

By REBECCA SMITH

In its heyday, the giant W.H. Sammis power station was a workhorse, cranking out electricity around the clock. But FirstEnergy Corp. FE -1.14% now plans to idle the coal-fired power plant on the Ohio River and run it only when there is exceptional need for electricity.

Sammis is one of a growing number of coal-fired plants that were built to run 24 hours a day, seven days a week, but now may run only occasionally because of soft demand for electricity and competition from gas-fired plants that are cheaper to run and cleaner to operate.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The W.H. Sammis coal-burning power plant.

Coal has been losing ground to natural gas ever since a boost in shale-gas production sent the price of natural gas tumbling four years ago. But now the natural-gas price advantage is beginning to affect the coal units that seemed most protected from the shift. Many of these plants have the latest environmental upgrades and are often close to coal deposits.

The reason: With natural gas priced below $3 per million British thermal units, down from about $8 in 2008, many gas-fueled plants can make electricity for about two cents a kilowatt hour, less than half what it costs to run many coal units, said Julien Demoulin-Smith, director of utilities research at UBS Securities LLC in New York.

"This marks another iteration of the way in which natural gas is displacing coal," said Mr. Demoulin-Smith. He said he expects the trend to become more pronounced in coming months as companies seek ways to cut their operating costs, especially those selling power into deregulated markets in the Northeast, Midwest, California and Texas, where power prices are very low because there is no pricing floor.

FirstEnergy, based in Akron, Ohio, spent more than $1.8 billion putting pollution controls on the seven-unit Sammis plant in Stratton, its largest generating station in Ohio, starting the work before the 2008 economic downturn.

Even so, "if things don't pick up and electricity (profit) margins don't improve, the Sammis units won't run anymore," Mark Durbin, a First Energy spokesman, said of the plant, whose units were built between 1959 and 1971.

Another owner of generating plants, Dallas-based Luminant, recently announced plans to put two big, coal-fired generating units at its Monticello power plant in northeast Texas into semiretirement. A third, newer unit will continue running.

Last year, Luminant threatened to shut down the plant and its adjacent mining operation, blaming looming federal emissions restrictions. The rules were recently struck down by the courts.

Luminant, a unit of Energy Future Holdings Corp. of Dallas, says the change this year is prompted by market forces.

That is because natural-gas plants set market prices in Texas, and their costs are so low that they can often sell power for less than what it costs to run a coal plant. One reason Luminant's costs are higher is because of coal-handling expenses and the higher number of employees it takes to run a coal plant compared with a gas-fired plant.

"It's all about low wholesale prices," said Luminant spokesman Allan Koenig. Luminant is lobbying utility regulators for creation of a subsidy for generators that would reward them for keeping coal-based generating plants standing by to create electricity if needed.

Historically, units situated near mines—like those at Monticello, which burn the low-grade coal known as lignite—didn't need special assistance. They were able to make electricity more cheaply than any other kind of fossil-fuel plant. But proximity to even the cheapest coal is no longer a decisive advantage.

PPL Corp., PPL -0.52% of Allentown, Pa., is considering putting some of its coal units into formal part-time operating status, too, said George Lewis, a company spokesman. Several PPL units in the Midwest and Northeast were sidelined for extended periods this past spring because there weren't buyers for their power. The company expects power prices to remain low for the next couple of years, potentially idling units "for even longer periods," he said.

Ohio-based American Electric Power Co. AEP -0.30% started down this path a couple years ago, changing the operating status of 10 generating plants in Ohio, Indiana, West Virginia and Virginia. Today, it keeps a skeleton crew at each location and brings in more workers when it wants to bring some of the coal units back to life, something that requires about four days notice.

AEP's annual coal burn has dropped from approximately 75 million tons before 2008 to a projected 55 million tons in 2012. The multistate utility's natural-gas use, over that same period, has doubled, to about 200 billion cubic feet.

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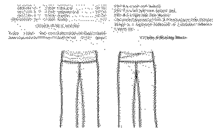

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